



the **PAYROLL**edge

CHALLENGES COMPANIES FACE WHEN EXPANDING INTO THE US

7 Challenges Companies Face When Expanding into the US

For many growing businesses, expansion into the United States is a long-term goal. Success in the American market often leads to success in subsequent international expansions. The question is less *if* you will lead your company into the US, and more about *when* you'll begin expanding into the American market.

No matter when this expansion begins, you want to be sure you're prepared for it. Otherwise, you could be leading your company into a minefield. The US market presents many different challenges for expanding companies. Many international companies have certainly found it to be [a difficult market](#) to crack.

The first step to a successful expansion is learning about the most common challenges facing international companies hoping to expand into the United States. You can't prevent mistakes or overcome obstacles if you don't know they exist.

This guide reviews some of these challenges and troublesome issues for expanding companies. You'll also find advice on how you can manage a US expansion wisely and overcome these issues before they present a problem for your organization.

1

Understanding Payroll Requirements and the Tax Code

You're likely familiar with the regulations of your home country for responsibilities like payroll deductions and remittances. The tax code in the US is another beast altogether.

The Tax Code

Before a company expands to the US market, a review of the tax code should be undertaken. This can help you understand the obligations you have [in administering payroll](#). The IRS provides schedules for remittances, for example.

Paying Employees for Time Off

When you expand to the American market, you'll also find different rules for public holidays and how to calculate holiday pay. Different requirements for paid vacation will also exist, and they may even be state-dependent.

The US lags behind many other nations in terms of providing protections such as paid maternity and parental leaves. Businesses may want to revisit their policies before they enter the US market. You might not be required to provide paid parental leave for American employees, but you might still want to. It could represent a competitive advantage for you as an employer.



2

Benefits, Entitlements, and Workers' Rights

There are US laws that oblige employers to provide certain employment benefits. Workers' compensation, the ACA, and a host of other regulations make a maze of employer-sponsored benefits you'll need to provide for American employees. Knowing what you're required to offer can be difficult.

The Complexity of US Healthcare

Healthcare legislation is a good example. The Affordable Care Act requires certain employers to offer particular levels of health insurance to employees. Other employers, such as those with fewer than 50 full-time employees, are exempt.

This situation is especially difficult for business owners and executives who come from countries where healthcare is subsidized by the state. Sorting through the law and IRS guidelines about the ACA and health insurance can be difficult.

Other Obligations for Your Business

Workers' compensation, minimum wages, and other employment laws may also impose requirements on employers. Most of these vary among states.

For example, the [minimum wage](#) in states like Pennsylvania and Virginia is set at the federal minimum at \$7.25. Other states, like Alabama and Tennessee, have no laws about minimum wages. Still other states mandate minimum wages much higher than the federal rate, and some have introduced legislation to increase wages over the next few years.

Currently, the state with the highest minimum wage is Washington at \$11.50. The minimum wage in DC is even higher, at \$13.25 per hour.



Compliance Issues

Payroll and tax compliance aren't the only areas of law your business will need to monitor. Employment legislation and even regulations about which types of business insurance you'll need to carry will need to be watched carefully.

An example is [disability insurance](#) for your employees. If your business is located in Hawaii, California, or Rhode Island, you're required to purchase disability insurance. In states like Michigan and New Mexico, however, you don't need to buy a policy.

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Depending on your business, you may also be subject to other state and federal regulations in the US. For example, you should know which products are taxable and which aren't. There may be regulations about a service you offer, which you'll need to comply with.

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Immigration Challenges and Visas

Many international businesses choose to send at least some of their executives or other management-level employees to new expansion sites. When the expansion site is the United States, immigration challenges can present themselves.

Getting Your Paperwork in Order

You'll need to be sure any employees you send to work in the US have the proper paperwork. This usually means a visa. With a new trade agreement among Canada, Mexico, and the US, a number of visa programs under NAFTA will be changing. New procedures and new forms could make immigration and visas more difficult to navigate in the near future.

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Hiring Staff and Operations Risks

Hiring regulations in the United States are different than in other countries. A company looking to expand into the US market should be sure to look at the laws currently on the books where they plan to operate. There are federal anti-discrimination laws in place for hiring and interviewing. Individual states may also have their own laws.

Who Is an Employee?

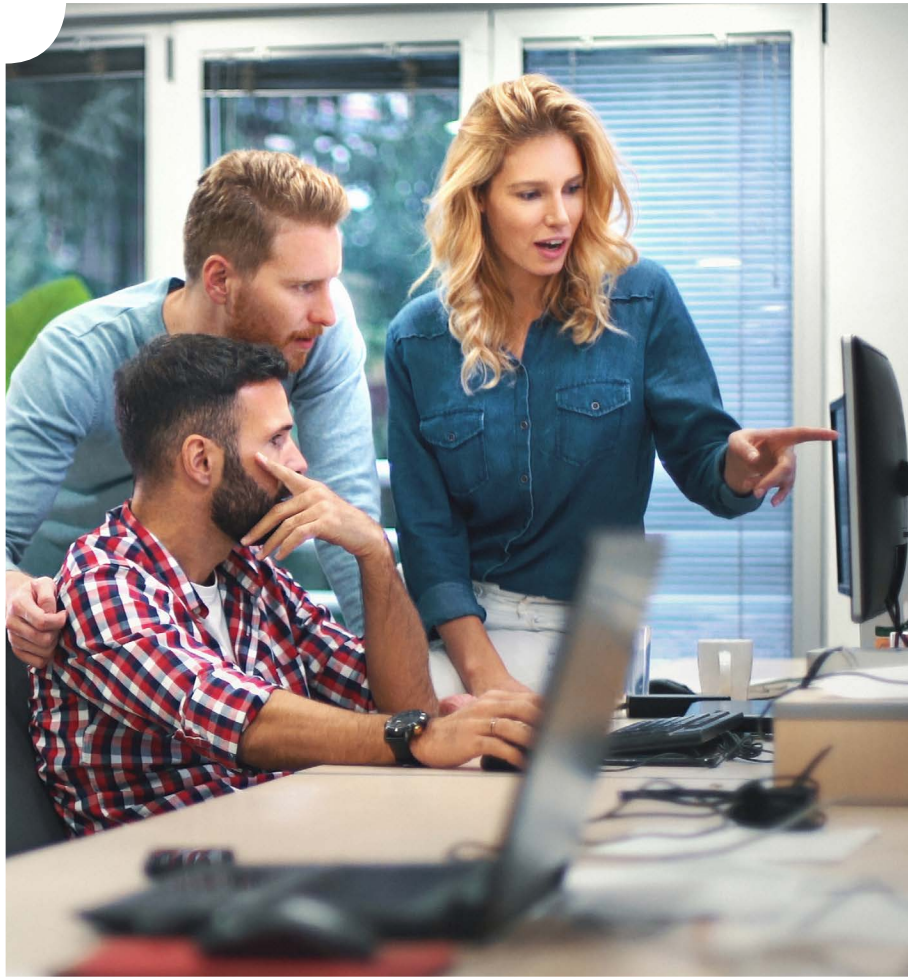
Employee misclassification is an example of a hiring risk. Are the people you're hiring to work remotely independent contractors or employees? Since misclassification costs governments at every level **billions of dollars each year**, it's little wonder more audits are being conducted. If you've misclassified an employee, you could be penalized.

The Difficulties of Remote Management

You might consider a remote workforce in the United States. This can be a smart business move, as it reduces some risks, such as investing in real estate. Remote workforces are often more challenging to manage, however, and they may also present special legal challenges.

The lack of direct oversight of all employees, remote or in a branch office, can also pose problems for the day-to-day operations of a business. Managers and those in the C-suite should be working on strategies to minimize those risks.

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Choosing the Right Market

It's easy to think of the United States as a monolith, but this mindset can be harmful for businesses hoping to expand their operations. The US is made up of a patchwork of local markets with a variety of characteristics.

Selling to people living in New York City is very different from selling to those living in the Midwest or the Southwest. Different lifestyles, different values, and even different micro-cultures are present across the US.

This also ties into the different regulations that affect your business. Some states or regions may impose additional rules on certain products or services to protect buyers. Legislation often **reflects cultural values**, so examining state laws can reveal insights into what Michiganders value versus Californians.

Location, Location, Location

Knowing all this information about the patchwork of markets and buyers is important as you try to decide where to base your American operations. Choosing the wrong location can spell the end of the expansion experiment before it even gets off the ground. By contrast, the right location may set the stage for further expansions, both within the US and in other international markets.

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Accounting for State-by-State Variations

Tax laws, unemployment laws, local regulations, and even customer service expectations vary from state to state.

Unemployment laws are one area of concern. As an example, you can look at the [State Unemployment Tax Act](#), which fluctuates based on people's unemployment status.

In California, short-term employees are still eligible for unemployment insurance, provided they meet all other criteria. The department responsible doesn't provide assistance to employers to pay benefits to short-term employees. In Idaho, casual labor arrangements aren't subject to unemployment insurance.

Different states also require different business insurance. Your insurance in California will be different than what you're required to carry in Maine or Alabama.

Penalties may also change between states. The consequences of employee misclassification are a good example. States that levy their own penalties, in addition to the federal penalties, include:

Maryland

California

Massachusetts

Montana

Wisconsin

Delaware

Individual states also have their own tax codes, which you'll need to be familiar with. For every state you operate in, you may find you're required to learn yet another set of rules and regulations.

It's easy to see how quickly the situation becomes complex, as state requirements are layered on top of federal statutes and laws.

What Are the Costs of Expansion Mistakes?

It's easy to dismiss the seriousness of these different challenges. Employee misclassification may not seem like a pressing problem until you're presented with the penalties.

Consider that non-compliance costs players in the financial industry an average of **\$14.8 million in fees** in 2017. Tax audits often cost thousands of dollars, especially if worker misclassification comes into play.

It's clear these costs can add up. When your business is trying to gain a foothold in the market, these unexpected and punitive expenditures can make or break your expansion efforts.

There is good news. Almost all of these expenditures are completely avoidable, provided you take the right steps. Carefully manage your business expansion into the US, and you'll have a much better chance of success.

Expanding Wisely into the US

The seven areas reviewed above present some of the most common challenges to businesses entering the American market for the first time. Some of them are more easily overcome than others. Careful research, for example, can help you determine which micro-market is right for your first US location.

In other areas, there will be several solutions. Familiarizing yourself with the federal tax code and that of your chosen state is a good first step. It's often not enough to avoid all issues and penalties.

Be sure you take advantage of the resources at your disposal. A robust solution includes learning about US law and partnering with experts and consultants. You may even decide to bring on partner firms to help you navigate the complexities of the US market.

Who Can Help You Expand into the US Market?

The US market represents both a great challenge and a great opportunity. How can you give your business the firm footing you need to succeed in this unfamiliar setting?

Professional employer organizations specialize in helping companies grow into the US, and they can help steer you away from trouble. There's one thing those at the helm of a US expansion should keep in mind: You don't need to go through it alone. Get help to avoid costly mistakes.

Partner with The Payroll Edge

The Payroll Edge, one of North America's leading professional employer organizations, helps companies looking to manage payroll, human resources, government compliance, and cross-border employment on both sides of the border.



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